THE MONTGOMERY FUND

INVESTMENT REPORT & FACT SHEET

FUND OVERVIEW

The Montgomery Fund employs a bottom-up, value style to invest and manage the equity portfolio. The Fund has the ability to retain a cash weighting, with a 'soft' 30 per cent limit, while seeking to identify companies that satisfy three main points of criteria. For inclusion in The Montgomery Fund, a business must be of premium quality, display bright prospects for earnings and growth in intrinsic value, and be available to purchase at a reasonable price.

Pursuant to this objective, The Fund aims to deliver superior positive returns where suitable investment opportunities are abundant, and to preserve capital through cash allocations where suitable investment opportunities are scarce.

FUND FACTS

INVESTMENT MANAGER
Montgomery Investment Management Pty Ltd

OBJECTIVE
The Montgomery Fund aims to outperform the index over a rolling 5-year period.

BENCHMARK
The S&P/ASX 300 Accumulation Index

FUND CONSTRUCTION
The Fund's All Cap portfolio will typically comprise 20-40 high-conviction stocks listed on the ASX and/or NZSX. Cash typically ranges from 0%-30%, but up to 50% in extreme situations.

APIR
FHT0030AU

RECOMMENDED INVESTMENT TIMEFRAME
5 years

MINIMUM INITIAL INVESTMENT
$25,000

INCEPTION DATE
17 AUGUST 2012

FUND SIZE
$425.7M

MANAGEMENT FEE
1.36% per annum, which includes a management fee of 1.18% per annum. Both figures are GST inclusive and net of RITC.

PERFORMANCE FEES
15.38% of the total return of The Fund that is in excess of the Index. No performance fee is payable until any previous periods of underperformance has been made up.

APPLICATION & REDEMPTION PRICES
montinvest.com/tmf

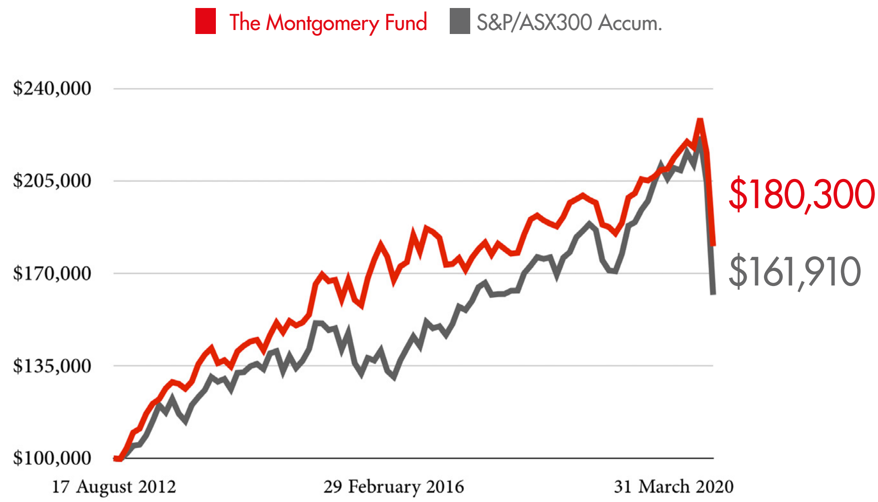
FINANCIAL YEAR RETURNS

FINANCIAL YEAR	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX
2013*	26.3%	14.1%
2014	11.6%	17.3%
2015	13.7%	5.6%
2016	11.2%	0.9%
2017	1.7%	13.8%
2018	9.3%	13.2%
2019	4.4%	11.4%
Since Inception**	8.04%	6.53%

* 2013 is the period 17 August 2012 to 30 June 2013

**Compound annual returns

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 31 March 2020, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	-16.43%	-16.43%	-20.83%	4.40%
3 months	0.00%	-17.20%	-17.20%	-23.41%	6.21%
6 months	1.12%	-16.78%	-15.66%	-22.86%	7.20%
12 months	5.61%	-15.62%	-10.01%	-14.53%	4.52%
3 years (p.a.)	5.41%	-5.21%	0.20%	-0.59%	0.79%
5 years (p.a.)	5.23%	-3.99%	1.24%	1.39%	-0.15%
7 years (p.a.)	5.48%	-0.29%	5.19%	4.70%	0.49%
Since inception#	57.26%	23.04%	80.30%	61.91%	18.39%
Compound annual return (since inception)# # *17 August 2012*	6.12%	1.92%	8.04%	6.53%	1.51%

FUND COMMENTARY

It would not be an understatement to suggest the world changed in March 2020. What started off as a China-centric virus shrugged off by the broader global populace quickly evolved into a global pandemic, in what will likely be a seminal moment in modern history. The impacts of COVID-19 are now being felt across almost every aspect of society. It is almost certain the world will enter economic recession, as human inactivity necessitates the prevention of spreading a virus that has so far claimed, at the time of writing, 65,000 lives on official count.

March was no less historic from a markets perspective, as initial panic and liquidation resulted in 30 per cent of the value of the ASX300 wiped out in less than a month. Fear of the Unknown was quickly replaced by the Fear of Missing Out, as targeted fiscal and monetary policies spurred optimism for a V-shaped rebound in economic activity in a post COVID-19 world, with the ASX300 rallying 12 per cent off its 23 March low to close the month down 20.8 per cent. The Index was down 23.4 per cent for March 2020 Quarter, and 28.6 per cent from its peak on 20 February.

The month was characterised by wild swings in equity prices, with March recording:

- A 9.5 percent fall on 16 March, the biggest one-day fall since 1987.
- 13 of 22 days registering more than 3 per cent moves in either direction on the previous close.
- An intra-day swing of 13.5 per cent on 13 March – down 8.5 per cent at one point, only to reverse course to close 4.3 per cent higher for the day.

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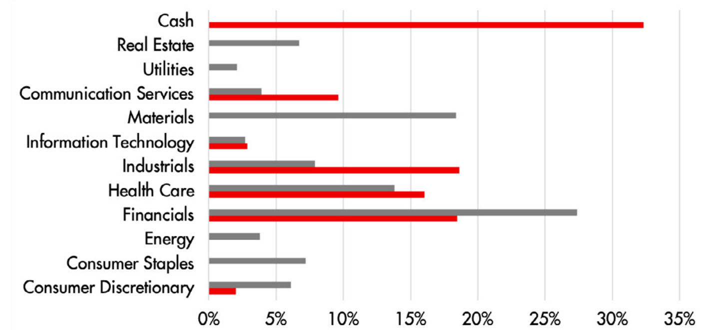
TOP COMPLETED HOLDINGS* (TCH)

(at 31 March 2020, out of 23 holdings)

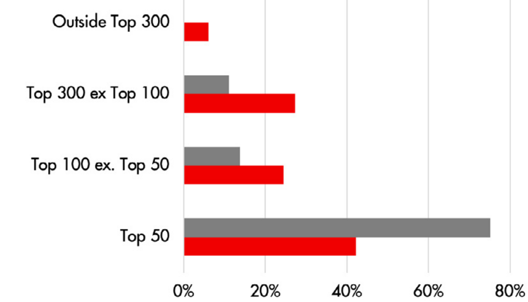
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
CSL	36.7	76.3	35.8	5.61
Avita Medical	N/A	N/A	N/A	5.39
Telstra Corp	20.3	114.6	13.1	5.23
Atlas Arteria	5.3	21.9	14.3	5.15
Sydney Airport	N/A	N/A	36.3	4.80
Medibank Private	22.2	-33.9	15.7	4.43
Spark New Zealand	28.6	114.3	19.7	4.40
Reliance Worldwide Corp	8.3	30.3	13.8	4.19
Westpac	10.5	N/A	9.9	3.72
Healius	12.2	33.0	18.1	3.03
TCH AVERAGE	18.0	50.9	19.6	
MARKET AVERAGE	10.9	78.4	15.1	
Total equity weighting				67.67
Total cash weighting				32.33

**Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.*

INDUSTRY EXPOSURE



MARKET CAPITALISATION EXPOSURE

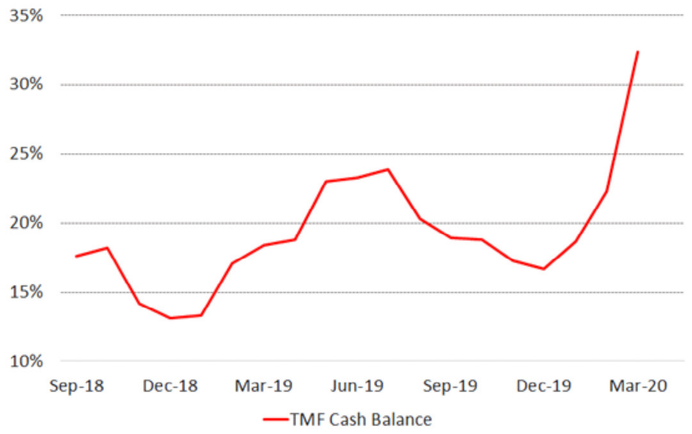


PLATFORMS WE ARE ON: Ausmaq | AMP PortfolioCare | AMP Summit | AMP Wealthview | AMP North | Asgard | BT Wrap | BT Panorama | Colonial First Wrap | Clearview Wealthsolutions | Investment Exchange (IX) | Federation Accounts | HUB24 | Linear Managed Accounts | Macquarie Wrap | MLC Wrap | Navigator | Netwealth IPDS | Netwealth Super | OneVue | Powerwrap | UBS

Over the month of March, The Montgomery Fund (The Fund) recorded a fall of 16.4 per cent, outperforming the benchmark by 4.4 per cent but still disappointing in terms of the absolute fall. While The Fund entered March with a cautious stance which only heightened early March - it was not immune to the pace of the sell-off, with higher beta exposures that had performed strongly over the financial year recording significant falls as panic took hold.

The biggest detractors to The Fund include companies regarded by many as some of the highest quality names in the ASX300, including Macquarie Group and Aristocrat Leisure. The lone positive contributor in March was Magellan Financial Group, a new and incomplete holding to The Fund. In addition, The Fund's significant underweight to the Banks helped contribute significant relative performance.

The Fund increased its cash holdings in excess of its soft 30 per cent limit in March – the first time in the history of The Fund. Despite the indiscriminate nature of the sell-off, we felt it prudent to reduce risk during a period of heightened volatility and significant uncertainty, as lower equity prices and a theoretically increased opportunity set was balanced with the uncertainties faced by an extended period of significant revenue reduction and working capital squeeze for most businesses. The Fund exited March with a cash holding of 32 per cent.



Source: Montgomery, Fundhost

Despite increased cash levels, March saw a heighted level of trading activity across The Fund as it assessed both new investment opportunities and re-assessed the appropriateness of pre-existing holdings in a post COVID-19 world. This has seen significant reductions in holdings where The Fund believes there are elevated risks, while being opportunistic in accumulating certain positions in weakness. We will discuss this in further detail later in the update.

Coronavirus developments

Early in the month, The Fund focused on a few factors with respect to navigating the Coronavirus in terms of their implications on assessing the most attractive risk-return opportunities and deploying cash. While the outlook is incredibly opaque, some of the factors we have monitored to help guide our investment decisions include:

- The spread of Coronavirus – where the prognosis remained mixed at best. While Australia is currently in a fortunate position in both cases and testing frequency, the US remains our biggest concern given the Trump Administration's failure to address the pandemic in its early stages and now resulting in significant humanitarian and economic damage.
- Market volatility – in both equity and credit markets. While initial cross correlation across all asset classes has subsided, volatility remains extremely elevated compared to longer-term history of equity markets.
- Appropriate government response – in both fiscal and monetary terms, as well as addressing the pandemic itself. Fiscal measures are unprecedented in their scale, and Central Banks have learnt their lesson from the GFC in providing ample liquidity to stabilise credit markets. However, Western Governments have been lacking in their preparedness on limiting the virus spread itself, while their populations have initially been less compliant than their East counterparts.
- Potential for asset contagion – given the interconnected nature of a freeze in cash receipts as revenue declines by more than 50 per cent in many industries (some by 100 per cent). While the GFC was characterised by elevated counterparty risk amongst financial institutions, the Coronavirus epidemic represents elevated risk amongst SMEs and corporate institutions.
- First, second and third order impacts arising from the pandemic which, despite being difficult to believe, is still in its relatively early stages for many economies.
- Stock specific opportunities – individual companies that meet specific criteria where valuation profiles become very attractive.

Stock Framework

With 2020 looking to be a write-off for most companies and industries, we have focused our investment decisions on a 12-18-month timeframe, with consideration to each company's ability to survive and prosper through a lens of relative value. We are focused on investment principles of business strength and quality, with greater emphasis on a company's balance sheet and less on near-term earnings.

Areas of focus include:

- Quality companies where earnings are not structurally impaired, and the current fall represents missed or delayed earnings.
- Asset backed companies with latent capacity where volumes will recover over time.
- Companies where competitors may, or will, suffer disproportionately from a prolonged shutdown, providing medium term opportunity to capitalise on that weakness.
- Companies that will survive and be well positioned in a recovery – while these businesses are more economically sensitive and impacted as a feedback loop, they are now more attractive on a medium-term basis.

On the other hand, The Fund is generally avoiding balance sheet leverage and companies with negative feedback loops which may be structurally impaired during the downturn. It continues to avoid resources companies at this time, recognising the risk of a fall in iron ore prices given the build in Chinese steel inventories and more consumer-sensitive areas of demand (autos, white goods, machinery) face significant challenges in the near-term.

Portfolio Changes

A number of changes were made to The Fund during the Quarter which accelerated in March, with significant repositioning of portfolio weights, one notable addition and a couple of smaller exits (Link Administration Holdings, QMS Media).

As outlined earlier, The Fund increased its cash weighting in early March as it reduced its holdings in Aristocrat Leisure, Macquarie Group, Westpac, Centuria Capital Group, Steadfast Group, Ramsay Healthcare and Healius. While we remain attracted to many of these companies, we acknowledge the challenges COVID-19 will place on their business models and have reduced our holdings in response. In the case of Healius, the company's unwillingness to engage a private equity suitor at a $3.40/per share bid price - and the subsequent dislocation in credit markets – has resulted in a lower likelihood of re-engagement from Partners Group in our view. Given Healius' existing balance sheet leverage and the disruption to the business arising from COVID-19, we have opted to reduce our position.

In March - there was one notable addition to the Portfolio, Sydney Airport. Sydney Airport generates revenue in the form of charges for international and domestic passengers, as well as retail, car-parking and commercial property. Understandably, the share price has been under pressure given the significant challenges faced by the aviation industry. We believe the current share price provides an attractive entry point to an asset which will most certainly recover as society develops methods to mitigate the spread and infection of Coronavirus over the short to medium term - with increasing demand for global aviation one of the most resilient longer-term trends (September 11, SARs epidemic). While balance sheet leverage remains a concern, we expect Sydney Airport's existing liquidity, along with measures to reduce capital expenditure, deferral of dividends and high-quality retail tenant base to help mitigate the need for a sizeable equity raising.

Key Portfolio Metrics

We introduced key portfolio metrics for The Fund last quarter, with the following table showing the revised metrics as per the March Quarter. (For an explanation of these metrics, please refer to our December 2019 Quarterly Letter).

Metric	The Fund (last 12 months)	The Fund (since August 2012)	ASX 300	ASX 300 (since August 2012)
Beta	0.73x	0.83x	1.00x	1.00x
Standard Deviation	18.6%	11.6%	24.7%	13.6%
Upside/Downside capture (monthly basis)	Up 61%, Down 65%	Up 81%, Down 64%		
Forecasted EPS growth	N/A		N/A	

Given the pace and extent of disruption arising from Coronavirus on businesses and equity prices, the 12-month metrics of beta and standard deviation are less reliable than in less volatile periods. We have opted to remove forecast EPS growth this quarter as it is suspect to significant revisions, as we believe market estimates of EPS will turn negative as analysts adjust expectations.

Outlook

Looking forward, we remain concerned with the accelerated pace of economic fall-out given the relatively early stages of various lockdown measures. While acknowledging investors will look beyond the immediate impacts of the Coronavirus using the China experience as a template to potential recovery, risk remains elevated as the scale of shutdown measures and subsequent damage to the economy will partially be determined by the path of the virus itself – including the possibility of reinfection.

Despite our elevated caution, we remain vigilant on high quality investment opportunities and will seek to take advantage of these as they arise.